

Office of the Legislative Auditor

State of Montana



May 1990

Report to the Legislature

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1989

³⁵ Billings Vocational-Technical Center

This report contains 10 recommendations to the center. The report contains concerns regarding the center's:

- ▶ Deposit of tuition checks.
- ▶ Spending non-General Fund money first.
- ▶ Installment computer purchase.
- ▶ Fixed asset controls.
- ▶ Compliance with federal regulations.
- ▶ Accounting for financial activity in accordance with state law.
- ▶ Enrollment reporting.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

89-15^X

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Greg Jergeson, Vice Chairman
Senator Tom Keating
Senator Tom Rasmussen
Senator Mike Walker

Representative John Cobb, Chairman
Representative Mike Kadas
Representative Robert Pavlovich
Representative Bruce Simon

STATE OF MONTANA

Office of the Legislative Auditor



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

May 1990

The Legislative Audit Committee
of the Montana State Legislature:

This is the financial-compliance audit report on the Billings Vocational-Technical Center for fiscal years 1987-88 and 1988-89. The center's written response to audit recommendations is included at the end of the audit report. We thank the director, center staff, and the Commissioner of Higher Education for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", with a long horizontal flourish extending to the right.
Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1989

Billings

Vocational-Technical Center

Members of the audit staff involved in this audit were Pearl M. Allen, Jeane Carstensen, Susan A. Fleming, Renee Foster, Boyd D. Gackle, Geralyn Huschka, Lorry Parriman, and Catherine L. Scarff.

Table of Contents

| | | |
|--|--|-----|
| | Appointed and Administrative Officials | iii |
| | Summary of Recommendations | v |
| Introduction | Introduction and Audit Objectives | 1 |
| | Background | 1 |
| | Governance | 1 |
| | Operations | 2 |
| Prior Audit Recommendations | Prior Audit Recommendations | 4 |
| Findings and Recommendations | State Compliance | 5 |
| | Tuition Checks | 5 |
| | Use of Administrative Cost Allowance | 6 |
| | Computer Purchase | 7 |
| | Fixed Assets | 8 |
| | Federal Compliance | 10 |
| | Carl Perkins Subgrant | 11 |
| | Cash Management | 12 |
| | Federal Reporting | 13 |
| | Accounting Issues | 14 |
| | Carl Perkins Subgrant in Unrestricted Subfund | 15 |
| | Other Accounting Issues | 16 |
| | Enrollment Reporting | 17 |
| Disclosure Issues | Termination Payout | 19 |
| | Property Ownership | 20 |
| Independent Auditor's Report & Center Financial Schedules | Summary of Independent Auditor's Report | 22 |
| | Independent Auditor's Report | 23 |
| | Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1989 | 24 |
| | Schedule of Budgeted Revenue and Transfers In By Class and Fund - Estimate and Actual for the Two Fiscal Years Ended June 30, 1989 | 25 |

Table of Contents

| | | |
|------------------------|--|----|
| | Schedule of Budgeted Program Expenditures By Object and Fund - Budget and Actual for the Fiscal Year Ended June 30, 1989 | 26 |
| | Schedule of Budgeted Program Expenditures By Object and Fund - Budget and Actual for the Fiscal Year Ended June 30, 1988 | 27 |
| | Notes to the Financial Schedules | 28 |
| Center Response | Billings Vocational-Technical Center | 34 |

Appointed and Administrative Officials

| | | | <u>Term</u> |
|--|--|---|----------------|
| | | | <u>Expires</u> |
| Board of Regents of Higher Education | Stan Stephens, Governor* | | 1992 |
| | Nancy Keenan, Superintendent of Public Instruction* | | 1992 |
| | William L. Mathers, Chairman | Miles City | 1994 |
| | Elsie Redlin, Vice Chairman | Lambert | 1991 |
| | Jim Kaze | Havre | 1992 |
| | Thomas F. Topel | Billings | 1993 |
| | Cordell Johnson | Helena | 1996 |
| | Kermit R. Schwanke | Missoula | 1997 |
| | Vickie Rae Clouse, Student Regent | Havre | 1990 |
| Administrative Officials | Carrol Krause* | Commissioner of Higher Education | |
| | John H. Noble, Jr. | Deputy Commissioner for Management and Fiscal Affairs | |
| | Brady J. Vardeman | Deputy Commissioner for Vocational Education | |
| Billings Vocational- Technical Center | Erie Johnson | Director (through March 14, 1990) | |
| | Vern Kosta | Assistant Director (through March 14, 1990) Acting Director (beginning March 15, 1990) | |
| | Teresa Timm | Chief Fiscal Officer (beginning September 1989) | |
| | Richard Peterson | Fiscal Officer (through June 30, 1989) | |
| | Bob Carr | Supervisor of Public and Student Affairs | |
| | Jack Holzer | Financial Aid Director | |
| | | | |

*Ex officio members of the Board of Regents of Higher Education

Introduction

Introduction and Audit Objectives

We performed a financial-compliance audit of the Billings Vocational-Technical Center for the two fiscal years ended June 30, 1989. The objectives of our audit were to:

1. Make recommendations for improving management and internal controls of the center.
2. Determine if the center complied with applicable state and federal laws and regulations.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the center's financial schedules for the two fiscal years ended June 30, 1989, present fairly the results of operations and changes in fund balances in accordance with state accounting law and policy.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the related recommendation. Other areas of concern deemed not to have a significant effect on the successful operations of the center are not included in this report, but have been communicated to center management.

Background

Governance

In 1969, the 41st Legislative Assembly of Montana created five postsecondary vocational-technical centers located in Billings, Butte, Great Falls, Helena, and Missoula. In September of that year, the Billings center opened with an enrollment of 87 students. In 1969 the center offered twelve programs in nine rented facilities throughout the city of Billings. A building program instituted in 1977 was completed in 1980, and all programs were consolidated in a single campus situated on the west side of Billings.

Introduction

The Superintendent of Public Instruction and local school districts governed the postsecondary vocational-technical centers until Chapter 658, Laws of 1987, transferred governance to the Board of Regents of Higher Education effective July 1, 1987. This law provided for a two-year transition period from July 1, 1987 to June 30, 1989. All vocational-technical center directors became state employees on July 1, 1987. All other center employees continued to be local school district employees through June 30, 1989, and became state employees on July 1, 1989.

During the transition period, the center continued to receive support from Billings Public Schools, which owns the telephone system the center uses. Center personnel estimate that it will cost approximately \$17,000 to replace the system. Billings Public Schools continues to pay the center's monthly phone bills, which average \$1,060 per month, according to center personnel.

In December 1989, the center submitted a request for reimbursement from the Billings Public Schools. The center claims that Billings Public Schools did not return moneys the center advanced to the school district that were not used for the center's payroll. The center calculates the unused advances were \$15,494 for fiscal year 1987-88 and \$36,054 for fiscal years prior to 1987-88.

Operations

The center is accredited by the Commission of Colleges of the Northwest Association of Schools and Colleges. During the audit period, the center offered approximately 25 career options in the following programs:

1. Air Conditioning and Refrigeration
2. Automobile Body Repair
3. Business
4. Drafting
5. Food Service
6. Health Occupations
7. Mechanics
8. Welding

Introduction

The food service operation, which was discontinued during fiscal year 1987-88, restarted operations during fiscal year 1988-89. The welding program was not in operation in fiscal year 1988-89.

Approximately 51 full-time equivalent faculty and staff provide instructional and administrative support at the center. The following schedule illustrates the number of full-time equivalent (FTE) students at the center during the audit period.

Billings Vocational-Technical Center
Schedule of Full-Time Equivalent (FTE) Students
For the Two Fiscal Years Ended June 30, 1989

| <u>Quarter</u> | <u>Fiscal Year</u> | <u>Number of Students</u> | <u>Contact Hours</u> | <u>Calculated FTE</u> * |
|----------------|--------------------|---------------------------|----------------------|-------------------------|
| Summer | 1987-88 | 68 | 14,808 | 44 |
| Fall | 1987-88 | 405 | 137,361 | 412 |
| Winter | 1987-88 | 415 | 124,973 | 375 |
| Spring | 1987-88 | 361 | 120,115 | 360 |
| Summer | 1988-89 | 24 | 7,056 | 21 |
| Fall | 1988-89 | 511 | 120,105 | 360 |
| Winter | 1988-89 | 483 | 110,936 | 333 |
| Spring | 1988-89 | 385 | 117,648 | 353 |

*Reported contact hours divided by 333.3.

Source: Compiled by the Office of the Legislative Auditor from the center's records.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the Billings Vocational-Technical Center audit for the two fiscal years ended June 30, 1987. The prior audit report contained four recommendations which are still applicable to the center's operations. The center concurred with all four prior recommendations. The center implemented one, partially implemented one, and did not implement two of the prior recommendations. The two recommendations not implemented relate to federal student financial aid reports and accounting issues. Both are again addressed in this report on pages 13 and 14, respectively. The recommendation partially implemented concerns enrollment reporting and is discussed in this report on page 17.

Findings and Recommendations

State Compliance

During our audit we tested compliance with certain state laws and regulations related to the operation of the center. We noted instances where the center did not comply with provisions of state law. These instances are discussed below and in the accounting issues section starting on page 14.

Tuition Checks

During the audit period, if a student did not have the money to pay tuition during registration, the center would accept a check but agree to wait until the student had sufficient funds before depositing the check. Approximately 55 percent of tuition revenue in fiscal year 1987-88 (\$160,793) and 47 percent in fiscal year 1988-89 (\$133,491) was recorded on SBAS in months when registration did not occur. Some of this revenue is related to pre-registration periods, but this does not account for all of the tuition revenue recorded between registration months. Center personnel indicated the center held checks for students receiving financial aid until financial aid was disbursed at mid-term.

Section 17-6-105(6), MCA, and Montana Operations Manual (MOM) section 2-1210.20, require each state agency to deposit daily when coin and currency exceeds \$100 or total receipts exceed \$500, or at least weekly if the other conditions are not met. When deposits are made, the funds are invested by the State Board of Investments to earn interest until they are needed for expenditures. Because the center does not deposit tuition receipts in a timely manner, it increases the risk of loss and theft and the state General Fund loses interest income.

Center personnel believe the practice of holding student checks started because student financial aid is not disbursed until mid-term. The center should deposit receipts in accordance with state law and policy and evaluate and implement alternative student accounts receivable, collection, and financial aid disbursement procedures. In order to comply with the law, the center could establish accounts receivable for tuition and fees of

Findings and Recommendations

students receiving financial aid, apply financial aid awards directly to students' accounts, and disburse the remaining financial aid amount directly to the students. The center could also disburse financial aid earlier than mid-term. Implementing these policy changes would make non-General Fund money available sooner and allow the General Fund to earn more interest.

Recommendation #1

We recommend the center:

- A. Evaluate and implement alternative student accounts receivable, collection, and financial aid disbursement procedures.**
- B. Deposit receipts in a timely manner in accordance with state law.**

Use of Administrative Cost Allowance

The center receives an administrative cost allowance of 5 percent of expenditures in the College Work Study and Supplemental Educational Opportunity Grant programs and a set amount for each Pell grant awarded. At June 30, 1989, the center had a \$5,017 fund balance in the Restricted Subfund indicating the center had not spent all of the administrative cost moneys received. The center's receipts of administrative cost allowance moneys exceeded expenditures recorded in the Restricted Subfund by \$2,100 in fiscal year 1988-89.

Federal regulations require the institution to use its administrative cost allowance to offset the cost of administering financial aid programs. Due to turnover, center personnel were not certain why all of the administrative costs received were not expended. We believe the center has administrative costs in excess of the federal allowance. For example, the center charged all of the financial aid director's annual salary to the Unrestricted Subfund and did not charge any of his salary to

Findings and Recommendations

administrative costs in the Restricted Subfund in fiscal years 1987-88 and 1988-89. Most of the financial aid director's salary is attributable to the federal financial aid programs. By not spending administrative cost allowance moneys to the maximum extent possible, the center did not comply with section 20-16-204(2), MCA, which requires vocational-technical centers to apply expenditures against non-General Fund money wherever possible before using General Fund appropriations.

The Unrestricted Subfund includes moneys appropriated by the legislature from the state General Fund. Because the center used Unrestricted Subfund moneys to pay administrative costs of financial aid programs when Restricted Subfund moneys were available, the center should transfer expenditures from the Unrestricted Subfund to the Restricted Subfund or place administrative cost allowance moneys in the Unrestricted Subfund. Either method could result in an Unrestricted Subfund reversion to the state General Fund.

Recommendation #2

We recommend the center use federal administrative cost allowance moneys to offset the costs of administering financial aid programs to the maximum extent possible, in accordance with state law.

Computer Purchase

During fiscal year 1988-89, the center entered into five-year installment purchase agreements totaling approximately \$78,000 (\$63,000 in principal and \$15,000 in interest) for a mainframe computer and two software packages. The center purchased the computer and software to organize and maintain student recruitment, registration, attendance, and placement data. The center paid off the agreements in October 1989 (ten months after the purchase) for approximately \$70,000.

Findings and Recommendations

The requisitions to purchase the computer and software packages were not approved by the Commissioner of Higher Education as required by the Montana University System Policy and Procedures Manual Section 920.1, which states "Requisitions for the acquisition of computing equipment, software, computer vendor services and word processing equipment with an estimated dollar value of \$5,000 or more shall be reviewed by the Director of Planning and Research prior to submission to any vendor or the state Purchasing Division." The center also did not go through the state's Purchasing Bureau as required by state law and by the center's delegated purchasing authority agreement with the Purchasing Bureau. Since the person primarily responsible for these installment purchase agreements is no longer employed by the center, it was not possible for us to determine why the purchases did not comply with state purchasing requirements.

Centralized purchasing operates on the premise that combined buying power can be used to gain economies of scale and decrease administrative costs by eliminating the need for extensive individual agency involvement in the purchasing process. The center should establish and document procedures to ensure center personnel comply with state purchasing laws and policies and center purchases are cost-effective.

Recommendation #3

We recommend the center establish and document procedures to ensure compliance with state purchasing laws and policies.

Fixed Assets

Montana Operations Manual (MOM) section 2-1710.42 requires that, upon completion of any physical inventory, all necessary adjustments be made to the Property Accountability Management System (PAMS, the state's property records) to

Findings and Recommendations

accurately reflect fixed asset totals. MOMs section 2-1710.42 also states, "In no event shall inventories be exclusively controlled by the custodian of the property records or the person to whom the fixed assets have been assigned." At June 30, 1989, the center had \$1.3 million of fixed assets on its property records, including equipment purchased with federal Carl Perkins (Catalog of Federal Domestic Assistance (CFDA) #84.048) funds. The following two paragraphs discuss areas of concern related to the center's controls over equipment and compliance with state property policies.

In fiscal year 1987-88, the person responsible for recording the center's equipment on PAMS took the physical count of equipment. In fiscal year 1988-89, instructors responsible for custody of equipment took the physical count of equipment. Center personnel identified the differences between the physical inventory counts and property records, but did not determine the reasons for the differences or make any adjustments to PAMS based on the inventory counts.

As a result, center personnel estimated that equipment was overstated by \$118,504 at June 30, 1989, because equipment no longer located at the center was not deleted from the center's property records. Because transactions input to PAMS update the center's accounting records, equipment in the Net Investment in Plant Fund is also overstated by \$118,504 at June 30, 1989. The lack of segregation between custody of assets and inventory counts increases the possibility of undetected loss or theft of equipment. Without a timely identification of differences between PAMS and physical inventory counts, equipment not accounted for may not be detected nor action taken to determine reasons for differences soon enough to minimize losses.

Center personnel stated that the center does not have the financial resources available to establish adequate segregation of duties for inventory or to hire personnel to make adjustments for the equipment deletions. We believe the center could

Findings and Recommendations

implement inexpensive controls to compensate for the lack of adequate segregation. Examples of the type of controls the center could establish would be to:

1. Have someone who does not have custody of the fixed assets perform and document random test counts.
2. Have center employees, other than those responsible for the equipment, perform the physical inventory count.

The center has already prepared a list of equipment that should be deleted, so the adjustments to the property and accounting records should not require substantial additional resources.

Recommendation #4

We recommend the center:

- A. Establish adequate internal controls over fixed asset custody, count, and recordkeeping functions.**
- B. Resolve differences between physical inventory counts and PAMS, and make the necessary adjustments to PAMS, in a timely manner.**

Federal Compliance

To comply with federal audit requirements our report discloses all federal compliance issues identified during the audit. These federal compliance issues are discussed on pages 11 through 14 of this report. The center participates in the following federal student financial aid programs: Pell Grants; Stafford Loans (formally Guaranteed Student Loans, or GSL); College Work Study (CWS); Supplemental Educational Opportunity Grants; and State Student Incentive Grants. In addition to the student aid programs, the center also received subgrants through CHE from the federal Vocational Education - Basic Grants to States, or Carl Perkins, program.

Findings and Recommendations

Carl Perkins Subgrant

The center received \$91,522 and \$172,238 during fiscal years 1987-88 and 1988-89, respectively, in Carl Perkins (CFDA #84.048) federal assistance of which \$68,717 and \$106,105, respectively, was not separately accounted for or identifiable on the center's accounting records. Federal regulations require that the center's financial management system provide for:

1. Accurate, current, and complete disclosure of the financial results of each federally sponsored project.
2. Records that identify adequately the source and application of funds for federally sponsored activities.

Because the center did not separately identify financial activity for Carl Perkins projects on its accounting records, the required reports the center submitted to CHE are not supported by the center's accounting records.

In November 1988, a CHE official reviewed the center's use of Carl Perkins funds. In a letter to the center's director, the official discussed the following two areas of concern identified during the review:

1. Fiscal documentation deficiencies, including the need "... to clearly identify expenditures charged to project activities in the future ..."
2. Ineffective communication within the center, due to personnel changes, concerning project management responsibilities.

The center's fiscal officer responded that the recommended corrective procedures would be implemented and created separate responsibility centers to account for Carl Perkins activity.

Correspondence from CHE to the center indicates the center had not requested reimbursement for fiscal year 1988-89 costs incurred on Carl Perkins projects as late as May 1989.

Findings and Recommendations

Therefore, the center was violating the state law which requires the center to apply expenditures against non-General Fund money wherever possible before using state General Fund appropriations. In May 1989, two CHE officials reviewed the center's documentation of 1989 Carl Perkins project activities and determined whether documentation was acceptable and expenditures were allowable. As a result of unacceptable documentation and unallowable charges, the center lost \$28,551 of anticipated Carl Perkins funding in fiscal year 1988-89.

The center should implement administrative and accounting controls to prevent similar occurrences in the future. The center should maintain accounting records that separately identify financial activity for each Carl Perkins project to facilitate preparation of reports, including requests for cash, and to provide adequate support for project activity.

Recommendation #5

We recommend the center:

- A. Establish effective administrative and accounting controls over Carl Perkins projects.**
- B. Clearly identify in its accounting records expenditures charged to each Carl Perkins project.**

Cash Management

We noted the center had excessive cash balances in the Pell Grant (CFDA #84.063) program. Federal regulations require the center to keep the minimum amount of cash possible. The center requests cash advances through an electronic transfer system from the U.S. Department of Education to finance its student financial aid disbursements. Federal guidelines indicate that institutions receiving funds through this system should keep no more cash than they plan to disburse within five working days. The center exceeded the guideline by 8 to 16 working

Findings and Recommendations

days in each of four months tested. For example, an advance of \$52,672 requested September 30, 1987, was not fully disbursed until October 19, 1987.

Financial aid personnel said they were not aware of the five day requirement, and thought it took at least that long for the funds to be available for use. Business office personnel indicated the funds were usually available for use the same day the advance was requested. We believe the center could meet the five day requirement through improved coordination between the business and financial aid offices.

Recommendation #6

We recommend the center monitor federal student financial aid programs' cash balances and request cash in accordance with federal regulations.

Federal Reporting

As part of managing federal student financial aid programs, the financial aid officer completes a federal report, by program, of the aid disbursed to students. He uses amounts recorded on manual records kept in the financial aid office, rather than the amounts recorded by the business office on the Statewide Budgeting and Accounting System (SBAS) to prepare the report. Federal regulations require recipients to establish and maintain financial records that reflect all program transactions in accordance with generally accepted accounting principles, and to ensure that financial reports contain reliable financial data.

The amount reported for CWS (CFDA #84.033) disbursements on the federal financial aid report was greater than the SBAS figure for fiscal years 1987-88 and 1988-89, by \$304 and \$2,090, respectively. The center did not accrue on SBAS \$2,090 of June 1989 CWS expenditures, which caused the fiscal year 1988-89 difference. In fiscal year 1987-88, the amount reported

Findings and Recommendations

on the federal financial aid reports for Pell Grant (CFDA #84.063) disbursements was \$153 greater than the SBAS figure because center personnel abated expenditures on SBAS for the same \$153 Pell Grant refund twice.

Center officials cited human error as the reason for the differences. In our prior audit report, we noted similar errors and recommended the center reconcile SBAS and the financial aid office's manual records before preparing federal financial reports. We believe such a reconciliation would have detected the errors. By correcting records for errors identified by such a reconciliation, the center would ensure that the financial aid reports contain reliable financial data and are supported by the center's primary accounting records.

Recommendation #7

We recommend the center reconcile accounting and financial aid office records and correct errors noted before preparing federal financial aid reports.

Accounting Issues

The center's financial information is used by center officials and legislators to manage and establish funding levels for the center. Section 17-1-102(4), MCA, states, "All state agencies, including units of the university system and the vocational-technical centers, shall input all necessary transactions to the accounting system . . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles . . ." In addition, the Department of Administration, Accounting and Management Support Division, establishes state accounting policy as outlined in the Montana Operations Manual (MOM). The following report sections discuss instances where the amounts the center recorded on SBAS did not comply with state accounting policy and law.

Findings and Recommendations

Carl Perkins Subgrant in Unrestricted Subfund

The Commissioner of Higher Education (CHE) subgranted federal Carl Perkins (CFDA #84.048) funds to the center of \$91,522 and \$172,238 for fiscal years 1987-88 and 1988-89, respectively. The legislature appropriated, in the Current Unrestricted Subfund, \$91,522 and \$128,910 of Carl Perkins money to the center in fiscal years 1987-88 and 1988-89, respectively. In both fiscal years, the center recorded Carl Perkins activity to the extent of legislative appropriation in the Current Unrestricted Subfund. The center recorded Carl Perkins money received in excess of the legislative appropriation in the Current Restricted Subfund.

Section 17-2-102, MCA, defines the uses of the Current Unrestricted and Restricted Subfunds as follows:

"The unrestricted subfund segregates that portion of the current fund's financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature."

"The restricted subfund segregates that portion of the current fund's financial resources that can be expended for general operations but only for purposes imposed by sources external to the board of regents and the legislature."

The state submits a plan to the U.S. Department of Education outlining proposed uses for Carl Perkins money granted to the state of Montana. The U.S. Department of Education must approve the plan before any Carl Perkins money is granted. Because the plan contains restrictions on the use of the money approved by a source external to the state, the center should record all Carl Perkins activity in the Current Restricted Subfund, except for that part attributable to indirect costs which is properly recorded in the Unrestricted Subfund. By recording Carl Perkins activity in the Current Unrestricted Subfund, the center's financial records are misstated as follows.

Findings and Recommendations

| <u>Subfund</u> | <u>Account</u> | <u>Amount of Over (under) Statement</u> | |
|----------------|----------------------------------|---|-------------------|
| | | <u>FY 1987-88</u> | <u>FY 1988-89</u> |
| Unrestricted | Transfers In | 91,522 | -0- |
| Unrestricted | Federal Revenues | -0- | 128,910 |
| Unrestricted | Federal Indirect Cost Recoveries | (5,497) | (6,236) |
| Unrestricted | Expenditures | 86,025 | 122,674 |
| Restricted | Federal Revenues | (86,025) | (122,674) |
| Restricted | Expenditures | (86,025) | (122,674) |

The 1987 Legislature appropriated Carl Perkins federal assistance to the center in the Current Unrestricted Subfund. CHE officials indicated that conceptually the Carl Perkins activity should be in the Restricted Subfund, but because it was appropriated in the Unrestricted Subfund, they instructed the center to record the activity there up to the amount appropriated.

Recommendation #8

We recommend the center account for Carl Perkins federal assistance in the Current Restricted Subfund in compliance with state law.

Other Accounting Issues

During our review of the center's accounting records, we noted several other accounting transactions which were not in compliance with state accounting policy and law. Some of the errors we noted are listed below.

1. Payments totaling \$21,481 for audit costs were coded to expenditure object #2998 - Goods Purchased for Resale-Higher Ed Recharges Operating, rather than expenditure object #2122-Contracted Services-Audit Fees.
2. Two separate payments for computer software, totaling \$5,528, were coded to expenditure object #2928-Goods Purchased for Resale-Computer Software, instead of expenditure object #3401 or #3402-Intangible Assets-Multi-User or Single-User Software.
3. Center personnel did not calculate or record an entry to adjust the center's compensated absence liability at

Findings and Recommendations

June 30, 1988. A calculation error caused the liability for compensated absences to be overstated by \$6,644 at June 30, 1989.

In addition to the coding errors, we noted several documents, including four journal vouchers with eight \$10,614 transactions transferring the \$10,614 between various subfunds and programs, which did not have any support attached and were not referenced to supporting documents. This may affect Carl Perkins (CFDA #84.048) federal assistance because of the issue discussed on page 11.

Center personnel cited human error as the reason for many of these problems. We also noted that many of these transactions were coded and approved by the same person. We have made recommendations regarding accounting procedures in the three prior audit reports. In our prior audit, we recommended the center review document coding prior to input. Center personnel indicated they separated the transaction coding and approval function in fiscal year 1989-90, which we believe will help detect and prevent the types of problems noted above.

Recommendation #9

We recommend the center separate the document coding and approval functions to ensure financial activity is recorded in compliance with state accounting law and policy.

Enrollment Reporting

During our audit period, the center was required to submit reports to the Commissioner of Higher Education (CHE) that calculated the full-time equivalent (FTE) students at the end of the twelfth day of instruction each quarter. An FTE is defined as 1,000 hours of student/teacher classroom contact per year, or 333.3 contact hours per quarter.

Findings and Recommendations

During follow-up of our previous audit recommendation related to FTE, with which the center concurred, we noted contact hours were not computed correctly for 6 of the 17 programs tested from the four quarterly fiscal year 1988-89 FTE reports. These six errors in computing contact hours resulted in FTE misstatements in all four quarters. The misstatements ranged in amounts from a 3.53 FTE overstatement for summer quarter to a 9.36 FTE understatement for fall quarter. Since reported FTE may be used as a variable in funding the center, errors in calculating FTE could result in an inappropriate level of funding.

Center officials believe that human error caused the misstatements in the reports. We reported the center made enrollment reporting errors in the center's previous two audit reports. We believe the problems noted could have been detected by an adequate review of the reports and supporting calculations on the master student list, which shows contact hours by program and student.

Recommendation #10

We recommend the center establish procedures to review enrollment calculations and reports for accuracy before submitting enrollment reports to CHE.

Termination Payout

Center officials offered to pay a former employee an amount equal to one year's salary if the employee voluntarily and unconditionally relinquished his employment with the center as of July 1, 1989. Center and CHE officials indicated the employee agreed to do so by not returning to work after leaving work on June 30, 1989. The employee signed a written "Memorandum of Understanding" to that effect on July 20, 1989. Center personnel accrued expenditures, based on the oral agreement, of \$29,054 (consisting of \$27,494 of salary and \$1,560 of benefits) in the center's fiscal year 1988-89 Current Unrestricted Subfund. The center paid the employee the agreement amount of \$29,054 on August 7, 1989.

The employee had a right to a contract for fiscal year 1989-90 because, according to section 20-16-107(2), MCA, a person employed by a center under a school district on June 30, 1989, became an employee of the Board of Regents (BOR) on July 1, 1989. Personnel policies of the BOR require six months written notice of intent not to renew the employee's contract. The employee did not become a state employee under the BOR authority until July 1, 1989, so the BOR could not give the employee prior notice of contract termination.

Any obligation to pay the former employee was created at the time employment was terminated. Center and CHE officials indicate employment was terminated June 30, 1989, although a written agreement was not signed until July 20, 1989. If employment terminated on or before June 30, 1989 (while the employee was an employee of the center under the school district), the payment for salary and benefits which had not been earned (severance pay) is contrary to state law. If employment terminated after June 30, 1989 (while the employee was an employee of the BOR), the termination pay was, in effect, a buy out of the employee's contract for the next year to comply with CHE's personnel policy requirements for notice of intent not to renew the contract. As such, the termination pay

Disclosure Issues

would be a legitimate expenditure of fiscal year 1989-90, but not of fiscal year 1988-89; would result in noncompliance with state accounting law; and would reduce the General Fund reversion for fiscal year 1988-89.

Because this situation appears to be unique due to the transition in governance and because it is unlikely the center could legally recover the amounts paid the former employee under the agreement, we present this information for disclosure purposes only and make no recommendation at this time.

Property Ownership

Due to the change in governance discussed on page 1, ownership of the land and buildings where the center operates has not been settled. As of June 30, 1989, the land and buildings were included on the records of the Billings Public Schools at \$120,000 and \$3,463,998, respectively, and were not recorded on the center's accounting records.

The center has outstanding debt on its facility. House Bill 100 from the 1989 Legislative Session includes an appropriation for the bond payments for fiscal years 1989-90 and 1990-91. House Bill 100 states the appropriation "may not be expended unless the board of regents obtains a contract from the school district that ensures that the state of Montana will receive deed to the vocational-technical center facility for the cost of retiring the outstanding bond." Until the March 29, 1990 contract was received, no payments were made from this appropriation for the center. CHE began making payments to the school district in April 1990 to meet the bond payment schedule.

We present this information for disclosure purposes only and make no recommendation at this time pending resolution of the ownership interests. When property ownership issues are resolved, all property the center is responsible for should be recorded on the center's accounting records.

Independent Auditor's Report & Center Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules presented on pages 24 through 31 are prepared from the Statewide Budgeting and Accounting System without adjustments for errors noted during the audit. The following independent auditor's report issued on these financial schedules is intended to convey to the reader the degree of reliance which can be placed on the amounts presented. The unqualified opinion on the financial schedules indicates the schedules are fairly stated in all material respects and the reader can rely on the reasonableness of the information presented on these schedules.

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Billings Vocational-Technical Center for each of the two fiscal years ended June 30, 1988 and 1989, as shown on pages 24 through 31. These financial schedules are the responsibility of the center's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the center's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

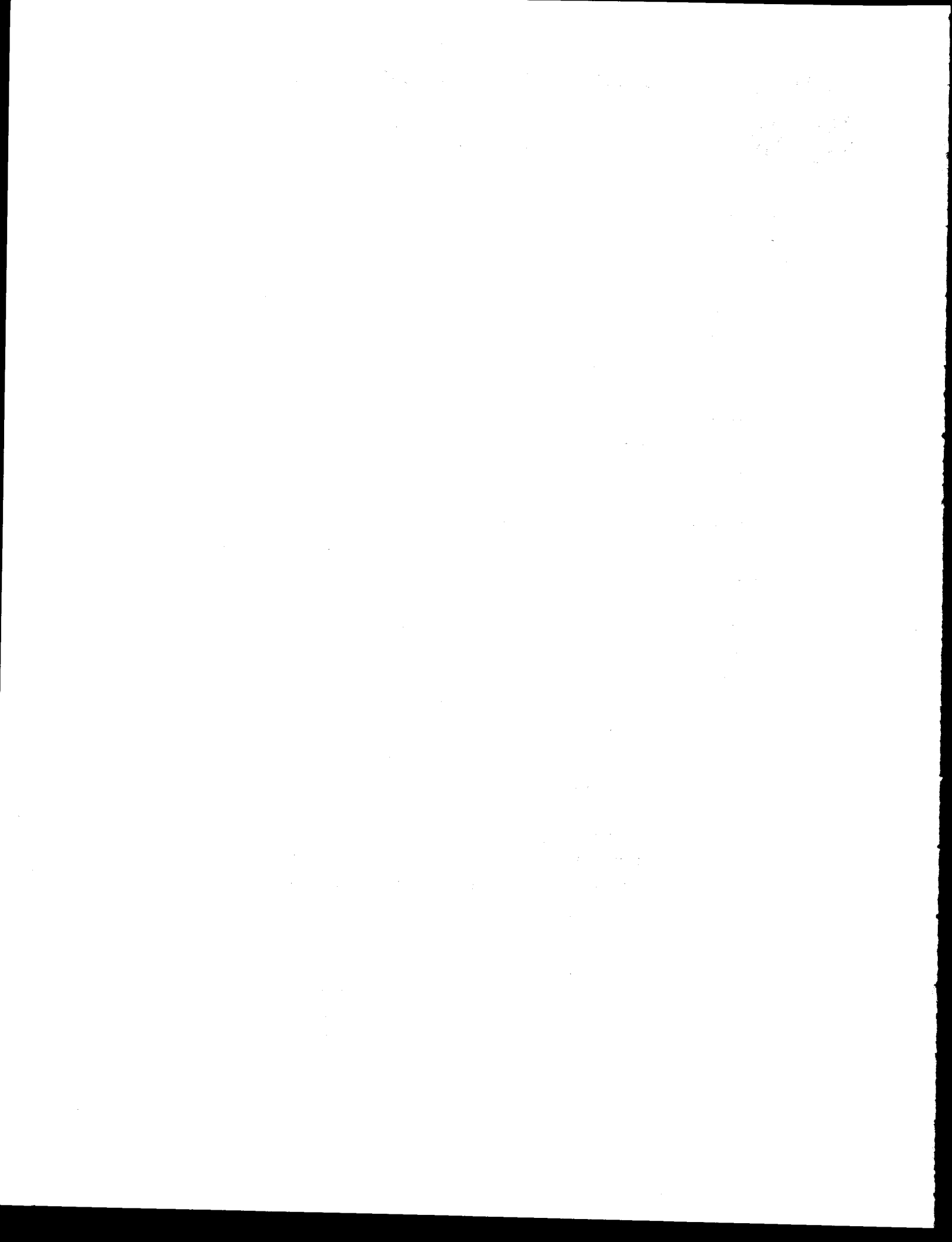
In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Billings Vocational-Technical Center for the two fiscal years ended June 30, 1988 and 1989, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

December 7, 1989



BILLINGS VOCATIONAL-TECHNICAL CENTER
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

| | <u>CURRENT FUND</u> | | | |
|--|---------------------------------|-------------------------------|-------------------------------|------------------------------|
| | <u>Unrestricted Subfund</u> | <u>Restricted Subfund</u> | <u>Designated Subfund</u> | <u>Auxiliary Subfund</u> |
| FUND BALANCE: July 1, 1987 | \$ <u>(33,436)</u> | \$ <u>3,297</u> | \$ <u>72,321</u> | \$ <u>94,914</u> |
| ADDITIONS: | | | | |
| <u>Fiscal Year 1987-88</u> | | | | |
| Budgeted Revenue & Transfers In | 1,798,405 | 255,177 | 48,041 | 129,645 |
| Nonbudgeted Revenue & Transfers In | | 875 | 611 | |
| Prior Year Revenue - Additions/Adjustments | (88,349) | 903 | (70) | |
| Prior Year Transfer In Adjustments | (770) | | | |
| <u>Fiscal Year 1988-89</u> | | | | |
| Budgeted Revenue & Transfers In | 1,950,998 | 363,992 | 42,406 | 145,883 |
| Nonbudgeted Revenue & Transfers In | | 840 | 2,607 | |
| Prior Year Revenue - Additions/Adjustments | (46,251) | 1,351 | (439) | 439 |
| Direct Entries to Fund Balance | | | 1,744 | |
| Total Additions | <u>3,614,033</u> | <u>623,138</u> | <u>94,900</u> | <u>275,967</u> |
| REDUCTIONS: | | | | |
| <u>Fiscal Year 1987-88</u> | | | | |
| Budgeted Expenditures & Transfers Out | 1,765,935 | 257,361 | 47,243 | 125,009 |
| Nonbudgeted Expenditures & Transfers Out | | (1,060) | 6,248 | (10,964) |
| Prior Year Expenditure Adjustments | 1,950 | | | |
| <u>Fiscal Year 1988-89</u> | | | | |
| Budgeted Expenditures & Transfers Out | 1,950,161 | 363,085 | 31,229 | 120,206 |
| Nonbudgeted Expenditures & Transfers Out | (66,091) ¹ | | 631 | 15,499 |
| Prior Year Expenditure Adjustments | (14,465) | 284 | (74) | (842) |
| Total Reductions | <u>3,637,490</u> | <u>619,670</u> | <u>85,277</u> | <u>248,908</u> |
| FUND BALANCE: June 30, 1989 | \$ <u>(56,893)¹</u> | \$ <u>6,765</u> | \$ <u>81,944</u> | \$ <u>121,973</u> |

¹See note 1D.

²See note 3B.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is in the notes to the financial schedules on pages 28 through 31.

10/2

| ENDOWMENT FUND | PLANT FUND | |
|-------------------|----------------------------------|---------------------------------------|
| | Unexpended Plant Subfund 2 | Renewal & Replacement Subfund 2 |
| \$12,371 | \$ 0 | \$ 0 |

(2)

~~\$12,512~~ ~~\$12,512~~

(2) 12,512 12,512

0 0 0
\$12,369 \$12,512 \$12,512

s presented in

page
24

2 of 2

BILLINGS VOCATIONAL-TECHNIC
SCHEDULE OF BUDGETED REVENUE AND TRANSFER
ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED

| | <u>Taxes</u> | <u>Charges For Services</u> | <u>Sale of Documents, Merchandise and Property</u> | <u>Investment Earnings</u> |
|----------------------------------|--------------------|-------------------------------------|--|--------------------------------|
| <u>Fiscal Year 1988-89</u> | | | | |
| CURRENT FUND: | | | | |
| Unrestricted Subfund | | | | |
| Estimate | \$ 321,632 | \$ 345,450 | | |
| Actual | <u>361,008</u> | <u>292,638</u> | | |
| Collections Over(under) Estimate | <u>\$ 39,376</u> | <u>\$ (52,812)</u> | | |
| Restricted Subfund | | | | |
| Estimate | | | | \$ 3,000 |
| Actual | | | | <u>201</u> |
| Collections Over(under) Estimate | | | | <u>\$(2,799)</u> |
| Designated Subfund | | | | |
| Estimate | | \$ 3,000 | \$ 84,300 | |
| Actual | | <u>942</u> | <u>39,150</u> | |
| Collections Over(under) Estimate | | <u>\$ (2,058)</u> | <u>\$(45,150)</u> | |
| Auxiliary Subfund | | | | |
| Estimate | | | \$173,175 | |
| Actual | | | <u>145,883</u> | |
| Collections Over(under) Estimate | | | <u>\$(27,292)</u> | |
| PLANT FUND: | | | | |
| Unexpended Plant Subfund | | | | |
| Estimate | | \$ 16,000 | | |
| Actual | | <u>12,512</u> | | |
| Collections Over(under) Estimate | | <u>\$ (3,488)</u> | | |
| Renewal & Replacement Subfund | | | | |
| Estimate | | \$ 16,000 | | |
| Actual | | <u>12,512</u> | | |
| Collections Over(under) Estimate | | <u>\$ (3,488)</u> | | |
| <u>Fiscal Year 1987-88</u> | | | | |
| CURRENT FUND: | | | | |
| Unrestricted Subfund | | | | |
| Estimate (See note 5) | \$ 494,956 | \$ 661,500 | | |
| Actual | <u>185,000</u> | <u>293,928</u> | | |
| Collections Over(under) Estimate | <u>\$(309,956)</u> | <u>\$(367,572)</u> | | |
| Restricted Subfund | | | | |
| Estimate | | | | |
| Actual | | | | |
| Collections Over(under) Estimate | | | | |
| Designated Subfund | | | | |
| Estimate | | \$ 11,050 | \$ 69,995 | |
| Actual | | <u>3,140</u> | <u>44,901</u> | |
| Collections Over(under) Estimate | | <u>\$ (7,910)</u> | <u>\$(25,094)</u> | |
| Auxiliary Subfund | | | | |
| Estimate | | | \$139,500 | |
| Actual | | | <u>129,645</u> | |
| Collections Over(under) Estimate | | | <u>\$(9,855)</u> | |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information

10/2

CAL CENTER
 RS IN BY CLASS AND FUND
 L
 JUNE 30, 1989

| <u>Other Financing Sources</u> | <u>Grants, Contracts, Donations & Abandonments</u> | <u>Federal</u> | <u>Miscellaneous</u> | <u>Total</u> |
|--|--|----------------|----------------------|------------------|
| \$ 1,333,301 | | \$ 164,859 | | \$ 2,165,242 |
| <u>1,168,442</u> | | <u>128,910</u> | | <u>1,950,998</u> |
| \$ (164,859) | | \$ (35,949) | | \$ (214,244) |
| | \$10,000 | \$ 402,583 | | \$ 415,583 |
| | <u>19,009</u> | <u>344,782</u> | | <u>363,992</u> |
| | \$ 9,009 | \$ (57,881) | | \$ (51,591) |
| | | | \$ 6,000 | \$ 93,300 |
| | | | <u>2,314</u> | <u>42,406</u> |
| | | | \$ (3,686) | \$ (50,894) |
| | | | | \$ 173,175 |
| | | | | <u>145,883</u> |
| | | | | \$ (27,292) |
| | | | | \$ 16,000 |
| | | | | <u>12,512</u> |
| | | | | \$ (3,488) |
| | | | | \$ 16,000 |
| | | | | <u>12,512</u> |
| | | | | \$ (3,488) |
| \$ 2,723,730 | | | | \$ 3,880,186 |
| <u>1,319,477</u> | | | | <u>1,798,405</u> |
| \$ (1,404,253) | | | | \$ (2,081,781) |
| | \$ 7,400 | \$ 372,997 | | \$ 380,397 |
| | <u>6,397</u> | <u>248,780</u> | | <u>255,177</u> |
| \$ (1,003) | \$ (124,217) | | | \$ (125,220) |
| | | | | \$ 81,045 |
| | | | | <u>48,041</u> |
| | | | | \$ (33,004) |
| | | | | \$ 139,500 |
| | | | | <u>129,645</u> |
| | | | | \$ (9,855) |

is provided in the notes to the financial schedules on pages 28 through 31.

page 25

2 of 2

BILLINGS VOCATIONAL-TECHNICAL CENTER
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

| | <u>Instruction</u> | <u>Academic Support¹</u> | <u>Student Services¹</u> | <u>Institutional Support¹</u> | <u>Plant Operation & Maintenance</u> |
|--|--------------------|-------------------------------------|-------------------------------------|--|--|
| PERSONAL SERVICES | | | | | |
| Salaries | \$ 749,038 | \$ 64,703 | \$111,319 | \$107,497 | \$ 1,114 |
| Hourly Wages | 15,237 | 28,943 | 22,565 | 42,092 | 49,764 |
| Employee Benefits | 173,733 | 20,416 | 33,444 | 32,478 | 12,282 |
| Total | <u>938,008</u> | <u>114,062</u> | <u>167,328</u> | <u>182,067</u> | <u>63,160</u> |
| OPERATING EXPENSES | | | | | |
| Contracted Services | 4,763 | 7,787 | 35,191 | 5,474 | 1,576 |
| Supplies & Materials | 88,078 | 10,141 | 5,373 | 3,149 | 13,090 |
| Communications | 314 | 830 | 19,316 | 2,657 | 2,606 |
| Travel | 4,189 | 5,310 | 5,828 | 13,343 | 50 |
| Rent | 2,052 | 24 | 369 | | (371) |
| Utilities | | | | | 81,480 |
| Repair & Maintenance | 14,938 | 1,282 | 317 | 343 | 12,998 |
| Other Expenses | 1,625 | 1,921 | 2,604 | 6,031 | 56,033 |
| Goods Purchased For Resale | 25,491 | 824 | 629 | 1,190 | |
| Total | <u>141,450</u> | <u>28,119</u> | <u>69,627</u> | <u>32,187</u> | <u>167,462</u> |
| EQUIPMENT AND INTANGIBLE ASSETS | | | | | |
| Equipment | 55,751 | | 21,229 | 102 | |
| Intangible Assets | 42,662 | | 1,389 | | |
| Total | <u>98,413</u> | | <u>22,618</u> | <u>102</u> | |
| GRANTS | | | | | |
| From Federal Sources | | | | | |
| From Other Sources | | | | | |
| Total | | | | | |
| TOTAL PROGRAM EXPENDITURES | <u>\$1,177,871</u> | <u>\$142,181</u> | <u>\$259,573</u> | <u>\$214,356</u> | <u>\$230,622</u> |
| CURRENT FUND: | | | | | |
| Unrestricted Subfund | | | | | |
| Budget | \$1,151,628 | \$148,407 | \$220,594 | \$217,588 | \$301,542 |
| Actual | <u>1,150,622</u> | <u>142,181</u> | <u>211,713</u> | <u>214,356</u> | <u>230,622</u> |
| Unspent Budget Authority | <u>\$ 1,006</u> | <u>\$ 6,226</u> | <u>\$ 8,881</u> | <u>\$ 3,232</u> | <u>\$ 70,920</u> |
| Restricted Subfund | | | | | |
| Budget | | | \$ 72,283 | | |
| Actual | | | <u>43,880</u> | | |
| Unspent Budget Authority | | | <u>\$ 28,403</u> | | |
| Designated Subfund | | | | | |
| Budget | \$ 67,360 | | \$ 7,400 | | |
| Actual | <u>27,249</u> | | <u>3,980</u> | | |
| Unspent Budget Authority | <u>\$ 40,111</u> | | <u>\$ 3,420</u> | | |
| Auxiliary Subfund | | | | | |
| Budget | | | | | |
| Actual | | | | | |
| Unspent Budget Authority | | | | | |
| PLANT FUND: | | | | | |
| Unexpended Plant Subfund ² | | | | | |
| Budget | | | | | |
| Actual | | | | | |
| Unspent Budget Authority | | | | | |
| Renewal & Replacement Subfund ² | | | | | |
| Budget | | | | | |
| Actual | | | | | |
| Unspent Budget Authority | | | | | |

¹ See note 3A.

² See note 3B.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the accompanying notes.

RES
UAL
989

| Scholarships & Fellowships | Auxiliary Enterprises | Recharge Services | Support ¹ | Plant | Total |
|----------------------------------|--------------------------|----------------------|----------------------|------------------|------------------|
| | | | | | \$1,033,671 |
| \$ 7,992 | \$ 5,589 | | | | 172,182 |
| | 2,589 | | | | 274,942 |
| <u>7,992</u> | <u>8,178</u> | | | | <u>1,480,795</u> |
| | 1,814 | | | | 56,605 |
| | 12,694 | | | | 132,525 |
| | 32 | | | | 25,755 |
| | | | | | 28,720 |
| | | | | | 2,074 |
| | | | | | 81,480 |
| | 119 | | | | 29,997 |
| | 104 | | | | 68,318 |
| | 95,142 | | | | 123,943 |
| | <u>109,905</u> | | \$ 667 | | <u>549,417</u> |
| | | | <u>667</u> | | |
| | 2,123 | | | | 79,205 |
| | | | | | 44,051 |
| | <u>2,123</u> | | | | <u>123,256</u> |
| 297,756 | | | | | 297,756 |
| 13,457 | | | | | 13,457 |
| <u>311,213</u> | | | | | <u>311,213</u> |
| \$319,205 | \$120,206 | | \$ 667 | | \$2,464,681 |
| | | | \$ 667 | | \$2,040,426 |
| | | | 667 | | 1,950,161 |
| | | | <u>0</u> | | <u>90,265</u> |
| \$351,100 | | | | | \$ 423,383 |
| 319,205 | | | | | 363,085 |
| <u>\$ 31,895</u> | | | | | <u>\$ 60,298</u> |
| | | \$20,000 | | | \$ 94,760 |
| | | <u>0</u> | | | 31,229 |
| | | <u>\$20,000</u> | | | <u>\$ 63,531</u> |
| | \$154,990 | | | | \$ 154,990 |
| | 120,206 | | | | 120,206 |
| | <u>\$ 34,784</u> | | | | <u>\$ 34,784</u> |
| | | | \$15,000 | \$ 15,000 | |
| | | | <u>0</u> | <u>0</u> | |
| | | | <u>\$15,000</u> | <u>\$ 15,000</u> | |
| | | | \$15,000 | \$ 15,000 | |
| | | | <u>0</u> | <u>0</u> | |
| | | | <u>\$15,000</u> | <u>\$ 15,000</u> | |

BILLINGS VOCATIONAL-TECHNICAL CENTER
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

| | <u>Instruction</u> | <u>Student Services¹</u> | <u>Plant Operation & Maintenance</u> | <u>Scholarships & Fellowships</u> | <u>Auxiliary Enterprises</u> | <u>Support¹</u> | <u>Total</u> |
|--|--------------------|---|--|---|----------------------------------|----------------------------|--------------------|
| PERSONAL SERVICES | | | | | | | |
| Salaries | \$ 755,487 | | | | | \$236,086 | \$ 991,573 |
| Hourly Wages | 12,939 | | \$ 56,050 | \$ 6,284 | \$ 11,293 | 84,150 | 170,716 |
| Employee Benefits | 151,487 | | 12,690 | | 3,431 | 66,877 | 234,485 |
| Total | <u>919,913</u> | | <u>68,740</u> | <u>6,284</u> | <u>14,724</u> | <u>387,113</u> | <u>1,396,774</u> |
| OPERATING EXPENSES | | | | | | | |
| Contracted Services | 2,359 | \$ 2,413 | 1,008 | | 756 | 20,421 | 26,957 |
| Supplies & Materials | 45,266 | 78 | 13,676 | | (2,216) | 17,936 | 74,740 |
| Communications | 97 | | 1,789 | | 387 | 10,545 | 12,818 |
| Travel | 3,592 | | 14 | | 19 | 8,520 | 12,145 |
| Rent | 2,406 | | | | | 387 | 2,793 |
| Utilities | | | 73,872 | | | | 73,872 |
| Repair & Maintenance | 7,274 | | 12,703 | | 121 | 1,219 | 21,317 |
| Other Expenses | 4,694 | | 94,637 | | 1,043 | 9,890 | 110,264 |
| Goods Purchased For Resale | 26,178 | 185 | | | 105,443 | 18,666 | 150,472 |
| Total | <u>91,866</u> | <u>2,676</u> | <u>197,699</u> | | <u>105,553</u> | <u>87,584</u> | <u>485,378</u> |
| EQUIPMENT AND INTANGIBLE ASSETS | | | | | | | |
| Equipment | 51,901 | 5,101 | | | 4,732 | | 61,734 |
| Intangible Assets | 2,850 | | | | | | 2,850 |
| Total | <u>54,751</u> | <u>5,101</u> | | | <u>4,732</u> | | <u>64,584</u> |
| GRANTS | | | | | | | |
| From Federal Sources | | | | 248,812 | | | 248,812 |
| Total | | | | <u>248,812</u> | | | <u>248,812</u> |
| TOTAL PROGRAM EXPENDITURES | \$1,066,530 | \$ 7,777 | \$266,439 | \$255,096 | \$125,009 | \$474,697 | \$2,195,548 |
| CURRENT FUND: | | | | | | | |
| Unrestricted Subfund | | | | | | | |
| Budget | \$1,185,210 | | \$266,439 | | | \$483,444 | \$1,935,093 |
| Actual | 1,024,799 | | 266,439 | | | 474,697 | 1,765,935 |
| Unspent Budget Authority | \$ 160,411 | | \$ 0 | | | \$ 8,747 | \$ 169,158 |
| Restricted Subfund | | | | | | | |
| Budget | | \$ 3,000 | | \$377,597 | | | \$ 380,597 |
| Actual | | 2,265 | | 255,096 | | | 257,361 |
| Unspent Budget Authority | | \$ 735 | | \$122,501 | | | \$ 123,236 |
| Designated Subfund | | | | | | | |
| Budget | \$ 65,721 | \$11,000 | | | | | \$ 76,721 |
| Actual | 41,731 | 5,512 | | | | | 47,243 |
| Unspent Budget Authority | \$ 23,990 | \$ 5,488 | | | | | \$ 29,478 |
| Auxiliary Subfund | | | | | | | |
| Budget | | | | | \$133,135 | | \$ 133,135 |
| Actual | | | | | 125,009 | | 125,009 |
| Unspent Budget Authority | | | | | \$ 8,126 | | \$ 8,126 |

¹See note 3A.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 28 through 31.



BILLINGS VOCATIONAL-TECHNICAL CENTER
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. The center's accounts are organized on the basis of the fund structure outlined in section 17-2-102, MCA. The financial schedules present center activity from the following higher education funds:

Current Fund - Includes economic resources expendable for instruction, research, public service, and the allied support operations and programs. The financial activities of the Current Fund are subdivided into the following four subfunds:

Unrestricted - funds for general operations which are free of restrictions, except those imposed by the legislature.

Restricted - funds for financing general operations for purposes imposed by sources external to the Board of Regents and the legislature, such as the federal Carl Perkins and student financial aid programs.

Designated - funds for general operations which have been internally restricted. This fund is separately classified in order to distinguish the specific type of service provided to various departments and is supported by internal charges to user departments. Most activity in this subfund is related to the center's resale operations for the mechanics, automobile body repair, and food service instruction programs.

Auxiliary - funds for providing goods and services primarily to students, faculty, or staff through a fee charged the consumer which is directly related to, but does not necessarily equal, the cost of the goods or services provided. The revenues are derived directly from the auxiliary bookstore and vending machine operations.

Endowment Fund - donated funds where the donor or center has designated initial contributions as nonexpendable principal and scholarships are awarded at the discretion of a scholarship committee and in accordance with any donor restrictions. The Lulu Mae Clay endowment for scholarships to nursing students is accounted for in this fund.

Plant Fund - accounts for financial resources allocated for capital outlay purposes or to retire long-term debts associated with construction or acquisition of fixed assets. The center records financial activity in the following two subfunds of the Plant Fund:

Unexpended Plant - accounts for unexpended resources from various sources to finance the acquisition of long-lived assets.

Renewal & Replacement - accounts for the funds needed to provide for the renewal and replacement of Plant Fund assets.

B. Basis of Accounting

The center uses the accrual basis of accounting for its funds. Under the accrual basis of accounting, expenses are recorded when a valid obligation is incurred, if measurable. The following items are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is to be accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which a purchase order is issued.
- Goods ordered but not received as of the fiscal year-end may be accrued if the purchase order was issued prior to fiscal year-end.

Revenues are recognized in the accounting period in which they are earned and become measurable.

C. Budget Information

Budgets for planning and controlling financial operations are set in two ways for the center. The legislature appropriates the Current Fund's Unrestricted Subfund, which includes money from the state's General Fund. Agencies have one year, after the end of the fiscal year for which the General Fund money was appropriated, to charge valid prior year expenditures. The agency must then return any unspent General Fund money to the state General Fund.

All other funds are budgeted and may be spent contingent upon approval of the comprehensive program budget by the Board of Regents by July 1st of each year.

D. Vacation and Sick Leave

Employees for the center accumulate both vacation and sick leave. Qualifying classified employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Certified instructional employees receive lump sum payments in accordance with contract provisions. Expenditures for termination pay currently are absorbed in the annual operating

costs of the center. At June 30, 1989, the center recorded a liability of \$31,920 for vacation leave and \$26,617 for sick leave. The net decrease in accumulated employee vacation and sick leave liability during fiscal years 1987-88 and 1988-89 accounts for \$66,433 of the nonbudgeted expenditures recorded in the Unrestricted Subfund in fiscal year 1988-89. Because the vacation and sick leave liability is not funded, it caused the negative fund balance in the Unrestricted Subfund at June 30, 1989.

2. LEGISLATIVE ACTION

The 50th Legislature, in Chapter 658, Laws of 1987, transferred the governance of the five vocational-technical centers from joint governance with the Office of Public Instruction (OPI) and the local school districts to single governance under the Board of Regents of Higher Education. Provisions of the bill allow a two year period to effect the transfer. Directors of the centers became state employees effective July 1, 1987, and the remaining staff and faculty became state employees effective July 1, 1989.

3. PROGRAM AND FUND CHANGES

A. Support Programs

In fiscal year 1987-88, the center reported the majority of activity related to the academic support, student services, and institutional support programs in a combined support program. In fiscal year 1988-89, the center reported most activity in the individual programs and reported only minimal activity in the combined support program. The Office of the Commissioner of Higher Education (CHE) instructed the center to make this change in order to comply with generally accepted accounting principles.

B. Unexpended Plant and Renewal & Replacement Subfunds

In fiscal year 1988-89, the center established Unexpended Plant and Renewal & Replacement Subfunds of the Plant Fund. The Board of Regents authorized the center to collect building and computer fees of \$3 each from students each quarter, beginning in fiscal year 1988-89. The center collected \$12,512 of each fee in fiscal year 1988-89 and recorded the revenues in the Unexpended Plant and Renewal & Replacement Subfunds of the Plant Fund.

4. CARL PERKINS

In fiscal years 1987-88 and 1988-89, the center recorded Carl Perkins activity, to the extent of legislative appropriation, in the Unrestricted Subfund. The center reported all other Carl Perkins activity in the Restricted Subfund. The center recorded, in the Unrestricted Subfund, Carl Perkins receipts of \$91,522 in fiscal year 1987-88 as transfers in and of \$128,910 in fiscal year 1988-89 as federal revenue. The center recorded, in the Restricted Subfund, Carl Perkins receipts of \$43,328 in fiscal year 1988-89 as federal revenue.

5. REVENUE ESTIMATES

In fiscal year 1987-88, CHE required the center to change the format of its revenue estimate numbers. The center established the new revenue estimates but did not eliminate all of the old revenue estimate amounts in the Unrestricted Subfund. This resulted in the following amounts of "Estimate" and "Collections Over(under) Estimate" being reported twice on the Schedule of Budgeted Revenue and Transfers In By Class and Fund - Estimate and Actual for fiscal year 1987-88:

| <u>Subfund</u> | <u>Class</u> | <u>Amount</u> |
|----------------|-------------------------|--------------------|
| Unrestricted | Taxes | \$ 247,478 |
| | Charges for Services | 330,750 |
| | Other Financing Sources | <u>1,356,865</u> |
| | Subfund Total | <u>\$1,935,093</u> |

Center Response

Billings Vocational Technical Center

3803 CENTRAL AVENUE

BILLINGS, MONTANA 59102

PHONE: (406) 255-3801

April 30, 1990

Mr. James Gillett
Deputy Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59620

RECEIVED

MAY 01 1990

Montana Legislative Auditor

Dear Mr. Gillett:

Following are our responses to the findings and recommendations made regarding the narrative and financial schedule segments of the final report on the audit of the Billings Vocational Technical Center.

RECOMMENDATION #1 - We recommend the Center:

- A. Evaluate and implement alternative student accounts receivable, collection, and financial aid disbursement procedures.
- B. Deposit Receipts in a timely manner in accordance with State law.

RESPONSE #1 - The Center concurs with these recommendations as follows:

- A. The procedures outlined in the audit report were implemented Spring Quarter 1990.
- B. Center personnel responsible for deposits have implemented procedures to ensure timely deposits in accordance with State law.

RECOMMENDATION #2 - We recommend the Center use federal administrative cost allowance monies to offset the costs of administering financial aid programs to the maximum extent possible, in accordance with State law.

RESPONSE #2 - The Center concurs with this recommendation. The Center's Chief Fiscal Officer is implementing this recommendation.

Mr. James Gillett
Page 2
April 30, 1990

RECOMMENDATION #3 - We recommend the Center establish and document procedures to ensure compliance with State purchasing laws and policies.

RESPONSE #3 - The Center concurs with this recommendation. The Center's Chief Fiscal Officer and the Purchasing/Supply Officer have compiled a procedures manual to implement this recommendation.

RECOMMENDATION #4 - We recommend the Center:

- A. Establish adequate internal controls over fixed asset, custody, count, and recordkeeping functions.
- B. Resolve differences between physical inventory counts and PAMS, and make the necessary adjustments to PAMS, in a timely manner.

RESPONSE #4 - The Center concurs with these recommendations as follows:

- A. Procedures for the fiscal year 1990 inventory are being designed to implement this recommendation.
- B. Adjustments to PAMS will be made before fiscal year-end 1990.

RECOMMENDATION #5 - We recommend the Center:

- A. Establish effective administrative and accounting controls over Carl Perkins projects.
- B. Clearly identify in its accounting records expenditures charged to each Carl Perkins project.

RESPONSE #5 - The Center concurs with these recommendations as follows:

- A. This has been implemented for fiscal year 1990 projects.
- B. This has been implemented for fiscal year 1990 projects.

RECOMMENDATION #6 - We recommend the Center monitor federal student financial aid programs' cash balances and request cash in accordance with federal regulations.

RESPONSE #6 - The Center concurs with this recommendation. This recommendation has been implemented.

Mr. James Gillett
Page 3
April 30, 1990

RECOMMENDATION #7 - We recommend the Center reconcile accounting and financial aid office records and correct errors noted before preparing federal financial aid reports.

RESPONSE #7 - The Center concurs with this recommendation. This recommendation has been implemented.

RECOMMENDATION #8 - We recommend the Center account for Carl Perkins federal assistance in the Current Restricted Subfund in compliance with State law.

RESPONSE #8 - The issue of whether to record Carl Perkins moneys in the Unrestricted or Restricted Subfund is expected to be resolved by the Office of the Commissioner of Higher Education and the Legislature during the 1991 Legislative Session.

RECOMMENDATION #9 - We recommend the Center separate the document coding and approval functions to ensure financial activity is recorded in compliance with State accounting law and policy.

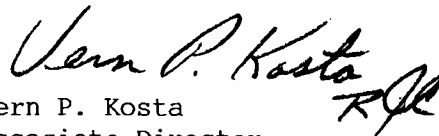
RESPONSE #9 - The Center concurs with this recommendation. This recommendation has been implemented.

RECOMMENDATION #10 - We recommend the Center establish procedures to review enrollment calculations and reports for accuracy before submitting enrollment reports to CHE.

RESPONSE #10 - The Center concurs with this recommendation. The FTE figures are reviewed by the Registrar and the Supervisor of Student Affairs prior to submission to CHE.

We are appreciative of the time and professional assistance that the audit staff provided during their time here at the Billings Vocational Technical Center.

Sincerely,


Vern P. Kosta
Associate Director

xc: Jack Noble
Deputy Commissioner for Management/Fiscal Affairs
Office of the Commissioner of Higher Education

